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SUBJECT: CAFTA-DR FIRST YEAR SUCCESS STORIES: MAQUILAS & TEXTILES

REF: A. SAN SALVADOR 1484 B. SAN SALVADOR 1423

#### Summary

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¶1. CAFTA-DR has shown very positive results in El Salvador during its first year of implementation. Manufacturing is expanding and diversifying, the local food and beverage industry is booming, and new investments are arriving to sectors before unexplored. It is the general view among entrepreneurs that CAFTA-DR has not only opened new trade opportunities in the U.S. but also has greatly improved and facilitated the steps and requirements to export to the United States. During the first year of CAFTA-DR, the maquila and textile sector alone has received over \$260 million in investment and created more than 2400 direct and 3300 indirect jobs. The maquila industry has also begun a process of restructuring that will lead to increased vertical integration and value-added production. Other sectors will be reported septel. End Summary.

¶2. Although the Salvadoran maquila industry has been severely affected by external competition (reftel A), several textile companies are making or expanding investments. Part of the local industry is being restructured into production clusters, increasing the vertical integration of the industry and the value added in production. For example, before CAFTA-DR, elastics were purchased in Asia. Now local industry manufactures and supplies elastics,

Polyester and nylon fibers.

¶3. This has led to more sophisticated production processes, increasing the demand for better qualified and higher paid workers. The current minimum wage in the maquila industry is \$157.25 per month, but in new maquila-related industries workers earn at least \$400 per month.

¶4. The maquila sector has also benefited by the World Trade Organization's (WTO) extension of the use of the Free Zones scheme in El Salvador until 2015. This gives the sector time to articulate a new "full package" production policy (reftel B).

¶5. One example of success is U.S. elastic producer George Moore, which announced plans to invest an additional \$4 million and increase employment from 294 to 325 by the end of 2007. Peter Moore, the firm's owner, attributed the expansion to 45% growth in sales and production since 2005. He said that the quality and competitiveness of the Salvadoran work force and El Salvador's proximity to the U.S. gives them an advantage in satisfying urgent orders.

¶6. Similarly, Brazilian textile firm Pettenati will invest \$95 million in 2007 in a 30,000 square meter production plant in La Libertad. Pettenati plans to invest \$150 million over the next five years, generating 750 direct jobs. Pettenati chose El Salvador because of economic stability, geographical location, labor availability, and the free trade agreements.

¶7. According to Eduardo Prisco, Ambassador of Brazil in El Salvador, CAFTA-DR was critical for the Pettenati investment. Pettenati will make elastic fabric, which was not produced before in Central America. It produces for clients like Puma, Reebok, Adidas, Under Armour, and Nike. The project will hasten vertical integration and require a higher level of technology and research processes, which promises higher paying jobs. The firm is also interested in creating new firms to supply the local operations, including a chemical producer and a spinning mill.

18. Other specific examples of new investments or expansion in the sector during the first CAFTA-DR year include:

-- Cupid Foundations (U.S.) invested in the maquila industry. \$5 million, 400 direct and 800 indirect jobs

-- Fruit of the Loom (U.S.) opened a new packaging center. \$3.5 million, 400 direct and 800 indirect jobs

-- Asheboro elastics (U.S.) produces knitted narrow elastic fabrics for the apparel industry. \$3 million, 100 direct and 200 indirect jobs

-- Tom Sawyer (U.S.) operates as a clothing producer under the free zones law. \$2 million, 400 direct and 800 indirect jobs

-- Algodon de Staple, Cotton, y Mallorie Alexander (U.S.) operates as a cotton bales distribution center under the free zones law. \$500,000

-- Partex (U.S.) expanded its maquila operations. \$500,000, 100

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direct and 200 indirect jobs

-- GARAN (U.S.) expanded its maquila operations. \$500,000, 100 direct and 200 indirect jobs

-- Spintex (Canada) produces threads. \$9 million, 150 direct and 300 indirect jobs

-- Union Plastics (Korea) operates as packaging materials distribution center under the free zones law. \$200,000

-- Corporacion Rey (Peru) works as a zipper distributor for the maquila industry. \$100,000

¶9. According to the National Investment Promotion Agency (PROESA), six textile companies (from the U.S., Guatemala, Brazil, and El Salvador) invested a total of \$132.8 million in the country during the first semester of 2007. They invested in textiles accessories distribution, sweaters assembly, and the production of threads, knitwear cloths, and patterns. Two logistic and distribution firms from Guatemala and Uruguay also invested \$8.5 million during the same period.

Comment

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¶10. Upcoming cables will report on other sectors that have increased exports and/or added employees since the implementation of CAFTA-DR in El Salvador some 18 months ago. These success stories early into CAFTA-DR are good news, but big issues remain. The violent crime problem and the 2009 elections loom largest. In January and March 2009, El Salvador will decide if it wants to continue on the road to economic modernization or follow the path of the FMLN and the populist policies espoused by others in the region. To ensure the continuation of the economic policies we endorse, Salvadorans must feel that the current government has delivered on both the economic and security fronts.

Glazer